

Measuring the Dynamics of Young and Small Businesses: Integrating the Employer and Nonemployer Universes

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ABSTRACT: The measurement of economic activity by federal statistical agencies focuses greater attention on larger, more mature business units. This data gathering strategy has two clear advantages. First, it yields greater accuracy in estimating the level of economic activity, whether “greater attention” takes the form of higher sampling probabilities or more careful auditing and editing. Second, it is easier to identify and promptly capture the activity of large, long-established business units. On both counts, the desire for a cost effective approach to measuring the level of economic activity leads naturally to a focus on larger, more mature units. There are, however, drawbacks to this data gathering strategy. When responses to shocks and new developments vary systematically with business size or age, a focus on larger and more mature units can yield less accurate, potentially misleading, measures of changes in economic activity. Perhaps more important, the traditional focus on larger and more mature units limits our ability to measure and analyze the early life cycle dynamics of businesses and to evaluate theories of business formation, selection and growth. In this paper, we develop a preliminary version of an Integrated Longitudinal Business Database (ILBD) that combines administrative records and survey-based data for virtually all employer and nonemployer business units in the United States. In doing so, we exploit the ability of the ILBD to follow business transitions between employer and nonemployer status, and vice-versa. This feature of the ILBD opens a new arena for the study of business formation, early life-cycle dynamics, and market selection over time. As another step toward an integrated perspective on the dynamics of young and small businesses, we compare the growth and volatility patterns of employer and nonemployer businesses.